

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Decatur	County Van Buren
Fiscal Year End February 28, 2006	Opinion Date July 12, 2006	Date Audit Report Submitted to State August 28, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 269-329-7007	
Street Address 710 East Milham		City Kalamazoo	State MI
		Zip 49002	
Authorizing CPA Signature Carol A. Light CPA		Printed Name Carol A. Light, CPA	License Number 1101020083

Village of Decatur
Van Buren County, Michigan
Annual Financial Statements
and
Auditors' Report
February 28, 2006

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Village of Decatur
List of Elected and Appointed Officials
February 28, 2006

Village Council

Carl Wickett – President

Joe Groh – Pro Tem

Tom Creagan – Trustee

Ali Elwaer – Trustee

Krista Ives – Trustee

Geoff Johnson – Trustee

Sandy Rose - Trustee

Other Officers and Officials

Jason Jones – Village Manager

Roberta J. Rex – Treasurer

Lou Ann Conklin - Clerk

Independent Auditors' Report

To the Members of the Village Council
Village of Decatur
Decatur, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Decatur as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Decatur as of February 28, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2006 on our consideration of the Village of Decatur internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Decatur's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

July 12, 2006
Kalamazoo, Michigan

Village of Decatur
Management's Discussion and Analysis
February 28, 2006

The management of the Village of Decatur, Michigan ("the Village") provides this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2006 for the benefit of the readers of these financial statements. This management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the Village's financial activity. The Village encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

HIGHLIGHTS

Government-wide:

The assets of the Village exceeded its liabilities at the close of the fiscal year by \$4.5 million (reported as net assets), an increase of approximately \$1.8 million from the previous year.

Fund Level:

As of the close of the fiscal year, the Village's governmental funds reported combined ending fund balances of \$477,732. Of this, \$315,617 is reported as unreserved fund balance, with \$162,115 reserved for long-term business and home rehabilitation loans. At the end of the fiscal year, fund balance for the General Fund was \$262,786, including \$104,788 reserved for long-term business and home rehabilitation loans, which is a decrease of \$22,281. The proprietary funds reported an increase in net assets of \$1.2 million during the year, primarily due to our Williams Street Infrastructure Improvement Project.

Long Term Debt:

The Village's total long-term debt was \$375,000 at February 28, 2006, related to a 1979 Water Supply System Revenue Bond. More detailed information regarding these activities and funds begins on page 4-22.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is an introduction to the Village's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

Village of Decatur
Management's Discussion and Analysis
February 28, 2006

The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The Village's combined net assets increased \$1,826,423 over the course of this fiscal year's operations to a total of \$4,477,387. The net assets of the governmental activities increased \$624,540 and business-type activities increased \$1,201,883.

Net Assets as of February 28, 2006 and 2005

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets						
Current and other non-current assets	\$ 784,129	\$ 748,650	\$ 723,408	\$ 528,886	\$ 1,507,537	\$ 1,277,536
Capital assets	<u>985,493</u>	<u>343,216</u>	<u>2,454,171</u>	<u>1,443,889</u>	<u>3,439,664</u>	<u>1,787,105</u>
Total Assets	1,769,622	1,091,866	3,177,579	1,972,775	4,947,201	3,064,641
Liabilities						
Long-term liabilities	14,806	0	260,000	280,000	274,806	280,000
Other liabilities	<u>113,698</u>	<u>75,289</u>	<u>81,310</u>	<u>58,389</u>	<u>195,008</u>	<u>133,678</u>
Total Liabilities	128,504	75,289	341,310	338,389	469,814	413,678
Net Assets						
Invested in capital assets, net of related debt	985,493	343,216	2,174,171	1,143,889	3,159,664	1,487,105
Restricted	162,115	157,214	51,049	28,222	213,164	185,436
Unrestricted	<u>493,510</u>	<u>516,147</u>	<u>611,049</u>	<u>462,275</u>	<u>1,104,559</u>	<u>978,422</u>
Total Net Assets	\$ <u>1,641,118</u>	\$ <u>1,016,577</u>	\$ <u>2,836,269</u>	\$ <u>1,634,386</u>	\$ <u>4,477,387</u>	\$ <u>2,650,963</u>

The largest component of the Village's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the Village's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, is subject to external restrictions such as bond covenants, Village Charter, State legislation or Constitutional provision.

Village of Decatur
Management's Discussion and Analysis
February 28, 2006

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year.

Change in Net Assets For the Fiscal Year Ended February 28, 2006

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program Revenues						
Charges for Services	\$ 7,486	\$ 37,043	\$ 377,664	\$ 368,504	\$ 385,150	\$ 405,547
Operating Grants	138,166	151,164	--	--	138,166	151,164
Capital Grants	550,000	--	1,168,444	--	1,718,444	--
General Revenues						
Taxes	437,035	408,681	--	--	437,035	408,681
State shared revenue	234,699	209,279	--	--	234,699	209,279
Unrestricted investment earnings	9,025	5,095	3,646	3,397	12,671	8,492
Transfers	20,000	--	--	--	20,000	--
Miscellaneous	36,337	20,320	9,840	--	46,177	20,320
Total Revenues	<u>1,432,748</u>	<u>831,582</u>	<u>1,559,594</u>	<u>371,901</u>	<u>2,992,342</u>	<u>1,203,483</u>
Expenses						
General government	209,018	152,031	--	--	209,018	152,031
Public safety	284,735	249,490	--	--	284,735	249,490
Public works	282,948	221,037	--	--	282,948	221,037
Community and economic development	226	--	--	--	226	--
Recreation and culture	47,734	41,770	--	--	47,734	41,770
Interest on long-term debt	--	724	--	--	--	724
Transfers	--	--	20,000	--	20,000	--
Water and Sewer	--	--	337,711	292,803	337,711	292,803
Total Expenses	<u>824,661</u>	<u>665,052</u>	<u>357,711</u>	<u>292,803</u>	<u>1,162,372</u>	<u>957,855</u>
Increase (decrease) in net assets	608,087	166,530	1,201,883	79,098	1,809,970	245,628
Prior period adjustment	16,453	--	--	--	16,453	--
Beginning net assets	<u>1,016,578</u>	<u>850,048</u>	<u>1,634,386</u>	<u>1,555,288</u>	<u>2,650,964</u>	<u>2,405,336</u>
Ending net assets	<u>\$ 1,641,118</u>	<u>\$ 1,016,578</u>	<u>\$ 2,836,269</u>	<u>\$ 1,634,386</u>	<u>\$ 4,477,387</u>	<u>\$ 2,650,964</u>

Village of Decatur
Management's Discussion and Analysis
February 28, 2006

Property taxes comprise 30.5% of Governmental Activities revenue. The Village's operating mileage during the fiscal year was 11.5631 for general Village activities, with an additional 3.0 mills specifically for streets, for a total of 14.5631 mills. In accordance with Charter and State Constitutional provisions, the Village may levy up to 17 mills for operation in fiscal year 2005-2006.

The Village has no income tax.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. Fiscal year 2005-2006 receipts from the State of Michigan trended downward, attributed to discretionary reductions in revenue sharing payments by the State of Michigan.

Business type Activities

Total net assets of the business-type activities, which includes the water and sewer funds, increased by \$1,201,883 during the fiscal year. The increase in net assets is related to the extensive infrastructure improvement projects that took place in fiscal year 2005-06.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the fiscal year, its governmental funds reported fund balances of \$477,732. Of this total amount, \$315,617 constitutes unreserved fund balance. The remaining fund balance of \$162,115 is reserved and is not available for new spending because it has been reserved for long-term business and home rehabilitation loans.

General Fund

The General Fund is the chief operating fund of the Village. At the end of fiscal year 2005-2006, the General Fund fund balance was \$262,786, with \$104,788 reserved for long-term business and home rehabilitation loans, and \$157,998 was unreserved and available for appropriation for general purposes. The General Fund fund balance decreased by \$22,281 from the previous fiscal year.

General Fund Budgetary Highlights

Administrative actions were taken to ensure the most cost effective budgetary operations. Unbudgeted expenses included various costs related to the transition of the Village Manager, Village Clerk, and Police Chief, and the addition of one DPW employee.

Property tax revenue (including penalties and interest) increased \$29,338 or 7.1% in fiscal year 2005-2006. This is attributed to usual increases in property values. The State reduced revenue sharing payments by \$8,516 in fiscal year 2005-2006. This resulted from State actions in response to the statewide economic slowdown.

Village of Decatur
Management's Discussion and Analysis
February 28, 2006

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets: At the end of the fiscal year 2005-2006, the Village had invested \$3,439,664, net of accumulated depreciation, in a broad range of capital assets (see the table below). Total depreciation charges for this fiscal year were \$153,565.

Capital Assets as of February 28, 2006 and 2005
(net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Infrastructure	\$ 675,509	\$ 11,136	\$ --	\$ --	\$ 675,509	\$ 11,136
Buildings/land, additions and improvements	105,923	116,385	336,260	230,174	442,183	346,559
Machinery and equipment	35,263	40,850	24,550	21,963	59,813	62,813
Vehicles	168,798	174,845	--	--	168,798	174,845
Water/Sewer system	--	--	<u>2,093,361</u>	<u>1,191,752</u>	<u>2,093,361</u>	<u>1,191,752</u>
Total	<u>\$ 985,493</u>	<u>\$ 343,216</u>	<u>\$ 2,454,171</u>	<u>\$ 1,443,889</u>	<u>\$ 3,439,664</u>	<u>\$ 1,787,105</u>

This year's major additions included:

Transmission mains – Water Fund	\$ 247,174
Transmission mains – Sewer Fund	908,343
Truck	15,552
Street improvements	687,680

ECONOMIC CONDITION AND OUTLOOK

State multi-year tax reduction legislation curtailed the State of Michigan's revenue collections. In May 2001 it became apparent that State revenues were declining and State Revenue Sharing payments to local government were cut to meet reduced revenue projections. Such reductions, and reductions in interest earnings on surplus funds, due to declines in interest rates, negatively impacted recent fiscal years, necessitating managerial constraints on operating expenditures.

Continuing expected reductions in State Revenue Sharing and the low interest rate environment, yet continuing inflationary pressure of municipal materials, supplies and equipment, dictated prudent expenditures for fiscal year 2005-2006, and a continuance of administrative cost containment measures.

**Village of Decatur
Management's Discussion and Analysis
February 28, 2006**

CONTACTING THE VILLAGE'S FINANCIAL ADMINISTRATION

This financial report is designed to provide the public with a general overview of the Village's finances, as well as the accountability for the money it receives. If the readers of this document have any questions or concerns with the information provided, they are encouraged to contact Decatur Village Hall at 269-423-6114.

Village of Decatur
Statement of Net Assets
February 28, 2006

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit
Assets				
Cash and cash equivalents	\$ 497,510	\$ 434,196	\$ 931,706	\$ 13,802
Receivables				
Taxes	36,901	-	36,901	642
Customers	162,115	50,882	212,997	303
Due from other units of government	104,479	148,809	253,288	-
Internal balances	(16,876)	16,876	-	-
Inventories	-	21,596	21,596	-
Restricted assets				
Cash and cash equivalents	-	51,049	51,049	-
Capital assets, net	985,493	2,454,171	3,439,664	-
 Total assets	 1,769,622	 3,177,579	 4,947,201	 14,747
Liabilities				
Accounts payable	76,954	26,824	103,778	-
Accrued and other liabilities	19,577	34,486	54,063	-
Deferred revenue	17,167	-	17,167	168
Noncurrent liabilities				
Due within one year	-	20,000	20,000	-
Due in more than one year	14,806	260,000	274,806	-
 Total liabilities	 128,504	 341,310	 469,815	 168
Net Assets				
Invested in capital assets, net of related debt	985,493	2,174,171	3,159,664	-
Restricted for:				
Debt service	-	51,049	51,049	-
Long-term business and home rehabilitation loans	162,115	-	162,115	-
Unrestricted	493,510	611,049	1,104,559	14,579
 Total net assets	 \$ 1,641,118	 \$ 2,836,269	 \$ 4,477,387	 \$ 14,579

See Accompanying Notes to Financial Statements

Village of Decatur
Statement of Activities
For the Year Ended February 28, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 209,018	\$ 4,349	\$ -	\$ -	\$ (204,669)	\$ -	\$ (204,669)	\$ -
Public safety	284,735	1,650	-	-	(283,085)	-	(283,085)	-
Public works	282,948	-	138,166	550,000	405,218	-	405,218	-
Community and economic development	226	-	-	-	(226)	-	(226)	-
Recreation and culture	47,734	1,487	-	-	(46,247)	-	(46,247)	-
Total governmental activities	824,661	7,486	138,166	550,000	(129,009)	-	(129,009)	-
Business-type activities								
Sewer	180,855	167,930	-	868,444	-	855,519	855,519	-
Water	156,856	209,734	-	300,000	-	352,878	352,878	-
Total business-type activities	337,711	377,664	-	1,168,444	-	1,208,397	1,208,397	-
Total primary government	<u>\$ 1,162,373</u>	<u>\$ 385,150</u>	<u>\$ 138,166</u>	<u>\$ 1,718,444</u>	(129,009)	1,208,397	1,079,387	-
Component unit								
Downtown Development Authority	<u>\$ 1,213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>				(1,213)
General revenues								
Property taxes					437,035	-	437,035	6,197
State shared revenue					234,699	-	234,699	-
Unrestricted investment earnings					9,025	3,646	12,671	45
Miscellaneous					36,337	9,840	46,177	-
Transfers					20,000	(20,000)	-	-
Total general revenues and transfers					737,096	(6,514)	730,582	6,242
Change in net assets					608,087	1,201,883	1,809,970	5,029
Net assets - beginning of year					1,016,578	1,634,386	2,650,964	9,550
Prior period adjustment					16,453	-	16,453	-
Net assets - beginning of year (restated)					1,033,031	1,634,386	2,667,417	9,550
Net assets - end of year					\$ 1,641,118	\$ 2,836,269	\$ 4,477,387	\$ 14,579

See Accompanying Notes to Financial Statements

Village of Decatur
Governmental Funds
Balance Sheet
February 28, 2006

	<u>Special Revenue Funds</u>			Nonmajor	Total
	<u>General</u>	<u>Major Street</u>	<u>Local Fund</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
Assets					
Cash and cash equivalents	\$ 146,992	\$ 62,208	\$ 71,617	\$ 67,190	\$ 348,007
Receivables					
Taxes	29,198	-	-	7,703	36,901
Customers	104,788	-	-	57,327	162,115
Due from other units of government	78,299	16,981	7,951	1,248	104,479
Due from other funds	<u>1,248</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,248</u>
 Total assets	<u>\$ 360,525</u>	<u>\$ 79,189</u>	<u>\$ 79,568</u>	<u>\$ 133,468</u>	<u>\$ 652,750</u>
Liabilities					
Accounts payable	7,898	65,165	274	\$ 14	\$ 73,351
Accrued and other liabilities	16,702	-	-	2,875	19,577
Due to other funds	-	-	-	1,248	1,248
Deferred revenue	<u>73,139</u>	<u>-</u>	<u>-</u>	<u>7,703</u>	<u>80,842</u>
 Total liabilities	<u>97,739</u>	<u>65,165</u>	<u>274</u>	<u>11,840</u>	<u>175,018</u>
Fund Balances					
Reserved for:					
Long-term business and home rehabilitation loans	104,788	-	-	57,327	162,115
Unreserved, reported in:					
General fund	157,998	-	-	-	157,998
Special revenue funds	<u>-</u>	<u>14,024</u>	<u>79,294</u>	<u>64,301</u>	<u>157,619</u>
 Total fund balances	<u>262,786</u>	<u>14,024</u>	<u>79,294</u>	<u>121,628</u>	<u>477,732</u>
 Total liabilities and fund balances	<u>\$ 360,525</u>	<u>\$ 79,189</u>	<u>\$ 79,568</u>	<u>\$ 133,468</u>	<u>\$ 652,750</u>

See Accompanying Notes to Financial Statements

Village of Decatur
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
February 28, 2006

Total fund balances for governmental funds	\$ 477,732
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	795,153
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	63,675
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Compensated absences	(14,806)
Internal service funds are included as part of governmental activities.	<u>319,364</u>
Net assets of governmental activities	<u><u>\$ 1,641,118</u></u>

Village of Decatur
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2006

	<u>Special Revenue Funds</u>			<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>		
Revenues					
Taxes	\$ 341,704	\$ -	\$ 20,980	\$ 75,453	\$ 438,137
Licenses and permits	14,930	-	-	-	14,930
State revenue sharing	207,926	-	-	-	207,926
Other state grants	-	644,103	44,063	-	688,166
Charges for services	7,486	-	-	-	7,486
Fines and forfeitures	5,332	-	-	-	5,332
Interest income	4,874	1,486	264	1,749	8,373
Rental income	1,255	-	-	-	1,255
Other revenue	14,972	-	-	(152)	14,820
Total revenues	<u>598,479</u>	<u>645,589</u>	<u>65,307</u>	<u>77,050</u>	<u>1,386,425</u>

See Accompanying Notes to Financial Statements

Village of Decatur
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended February 28, 2006

	<u>Special Revenue Funds</u>			<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>		
Expenditures					
Current					
General government	\$ 187,940	\$ -	\$ -	\$ -	\$ 187,940
Public safety	286,903	-	-	-	286,903
Public works	150,366	43,445	79,214	247	273,272
Community and economic development	226	-	-	-	226
Recreation and culture	36,516	-	-	-	36,516
Capital outlay	4,123	687,680	-	-	691,803
	<u>666,074</u>	<u>731,125</u>	<u>79,214</u>	<u>247</u>	<u>1,476,660</u>
Total expenditures					
	<u>(67,595)</u>	<u>(85,536)</u>	<u>(13,907)</u>	<u>76,803</u>	<u>(90,235)</u>
Excess (deficiency) of revenues over expenditures					
Other financing sources (uses)					
Transfers in	105,400	50,000	30,000	332	185,732
Transfers out	<u>(50,332)</u>	<u>(29,000)</u>	<u>(3,900)</u>	<u>(73,500)</u>	<u>(156,732)</u>
	<u>55,068</u>	<u>21,000</u>	<u>26,100</u>	<u>(73,168)</u>	<u>29,000</u>
Total other financing sources and uses					
	<u>(12,527)</u>	<u>(64,536)</u>	<u>12,193</u>	<u>3,635</u>	<u>(61,235)</u>
Net change in fund balance					
	<u>(12,527)</u>	<u>(64,536)</u>	<u>12,193</u>	<u>3,635</u>	<u>(61,235)</u>
Fund balance - beginning of year	285,067	78,560	67,101	91,786	522,514
Prior period adjustment	<u>(9,754)</u>	<u>-</u>	<u>-</u>	<u>26,207</u>	<u>16,453</u>
Fund balance - beginning of year restated	<u>275,313</u>	<u>78,560</u>	<u>67,101</u>	<u>117,993</u>	<u>538,967</u>
Fund balance - end of year	<u>\$ 262,786</u>	<u>\$ 14,024</u>	<u>\$ 79,294</u>	<u>\$ 121,628</u>	<u>\$ 477,732</u>

See Accompanying Notes to Financial Statements

Village of Decatur
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended February 28, 2006

Net change in fund balances - Total governmental funds	\$ (61,235)
Total change in net assets reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(43,807)
Capital outlay	691,803
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
State shared revenue	26,773
Property taxes	(1,102)
Expenses are recorded when incurred in the statement of activities	
Compensated absences	(14,806)
Internal service funds are also included as governmental activities	<u>10,461</u>
Change in net assets of governmental activities	<u><u>\$ 608,087</u></u>

Village of Decatur
Proprietary Funds
Statement of Net Assets
February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 202,540	\$ 231,656	\$ 434,196	\$ 149,503
Receivables				
Customers	16,530	34,352	50,882	-
Due from other units of government	92,345	56,464	148,809	-
Inventories	-	21,596	21,596	-
Total current assets	<u>311,415</u>	<u>344,068</u>	<u>655,483</u>	<u>149,503</u>
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	51,049	51,049	-
Capital assets, net	<u>1,511,492</u>	<u>942,679</u>	<u>2,454,171</u>	<u>190,340</u>
Total noncurrent assets	<u>1,511,492</u>	<u>993,728</u>	<u>2,505,220</u>	<u>190,340</u>
Total assets	<u>1,822,907</u>	<u>1,337,796</u>	<u>3,160,703</u>	<u>339,843</u>

See Accompanying Notes to Financial Statements

Village of Decatur
Proprietary Funds
Statement of Net Assets
February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Liabilities				
Current liabilities				
Accounts payable	\$ 18,925	\$ 7,899	\$ 26,824	\$ 3,603
Accrued and other liabilities	3,845	28,308	32,153	-
Current portion of noncurrent liabilities	-	20,000	20,000	-
Total current liabilities	<u>22,770</u>	<u>56,207</u>	<u>78,977</u>	<u>3,603</u>
Noncurrent liabilities				
Current liabilities payable from restricted assets				
Accrued interest payable	-	2,333	2,333	-
Long-term debt net of current portion	-	260,000	260,000	-
Total noncurrent liabilities	<u>-</u>	<u>262,333</u>	<u>262,333</u>	<u>-</u>
Total liabilities	<u>22,770</u>	<u>318,540</u>	<u>341,310</u>	<u>3,603</u>
Net Assets				
Invested in capital assets, net of related debt	1,511,492	662,679	2,174,171	190,340
Restricted for:				
Debt Service	-	51,049	51,049	-
Unrestricted	<u>288,645</u>	<u>305,528</u>	<u>594,173</u>	<u>145,900</u>
Total net assets	<u>\$ 1,800,137</u>	<u>\$ 1,019,256</u>	2,819,393	<u>\$ 336,240</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>16,876</u>	
Net assets of business-type activities			<u>\$ 2,836,269</u>	

See Accompanying Notes to Financial Statements

Village of Decatur
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 167,930	\$ 209,734	\$ 377,664	\$ -
Billings to other funds	-	-	-	163,063
Other revenue	460	9,380	9,840	-
Total operating revenue	<u>168,390</u>	<u>219,114</u>	<u>387,504</u>	<u>163,063</u>
Operating expenses				
Personnel services	26,945	60,901	87,846	-
Supplies	4,058	1,659	5,717	-
Contractual services	93,841	40,227	134,068	37,204
Utilities	2,152	6,547	8,699	-
Repairs and maintenance	71	4,112	4,183	10,071
Other expenses	739	(2,449)	(1,710)	71,296
Depreciation	54,628	33,859	88,487	21,271
Total operating expenses	<u>182,434</u>	<u>144,856</u>	<u>327,290</u>	<u>139,842</u>
Operating income (loss)	<u>(14,044)</u>	<u>74,258</u>	<u>60,214</u>	<u>23,221</u>

Village of Decatur
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended February 28, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Nonoperating revenue (expenses)				
Federal grant	\$ 868,444	\$ 300,000	\$ 1,168,444	\$ -
Interest income	1,758	1,888	3,646	653
Interest expense	-	(14,833)	(14,833)	-
Total nonoperating revenues (expenses)	<u>870,202</u>	<u>287,055</u>	<u>1,157,257</u>	<u>653</u>
Income (loss) before contributions and transfers out	856,158	361,313	1,217,471	23,874
Transfers in	-	8,500	8,500	-
Transfers out	<u>(28,500)</u>	<u>-</u>	<u>(28,500)</u>	<u>(9,000)</u>
Change in net assets	<u>827,658</u>	<u>369,813</u>	<u>1,197,471</u>	<u>14,874</u>
Net assets - beginning of year	<u>972,479</u>	<u>649,443</u>	<u>1,621,922</u>	<u>321,366</u>
Net assets - end of year	<u>\$ 1,800,137</u>	<u>\$ 1,019,256</u>	2,819,393	<u>\$ 336,240</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			<u>16,876</u>	
Change in net assets of business-type activities			<u>\$ 2,836,269</u>	

Village of Decatur
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Cash flows from operating activities				
Receipts from customers	\$ 75,996	\$ 162,135	\$ 238,131	\$ -
Receipts from interfund users	-	-	-	163,063
Payments to suppliers	(72,958)	(29,274)	(102,232)	(120,197)
Payments to employees	(26,945)	(60,901)	(87,846)	-
Payments for interfund services used	<u>(11,163)</u>	<u>(19,937)</u>	<u>(31,100)</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>(35,070)</u>	<u>52,023</u>	<u>16,953</u>	<u>42,866</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	8,500	8,500	-
Transfers to other funds	<u>(28,500)</u>	<u>-</u>	<u>(28,500)</u>	<u>(9,000)</u>
Net cash provided (used) by noncapital financing activities	<u>(28,500)</u>	<u>8,500</u>	<u>(20,000)</u>	<u>(9,000)</u>
Cash flows from capital and related financing activities				
Purchases/construction of capital assets	(843,257)	(255,512)	(1,098,769)	(15,552)
Federal grant	868,444	300,000	1,168,444	-
Principal and interest paid on long-term debt	<u>-</u>	<u>(34,833)</u>	<u>(34,833)</u>	<u>-</u>
Net cash provided (used) by capital and related financing activities	<u>25,187</u>	<u>9,655</u>	<u>34,842</u>	<u>(15,552)</u>

Village of Decatur
Proprietary Funds
Statement of Cash Flows
For the Year Ended February 28, 2006

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	Equipment
Cash flows from investing activities				
Interest received	1,758	1,888	3,646	653
Net increase (decrease) in cash and cash equivalents	(36,625)	72,066	35,441	18,967
Cash and cash equivalents - beginning of year	239,165	210,639	449,804	130,536
Cash and cash equivalents - end of year	<u>\$ 202,540</u>	<u>\$ 282,705</u>	<u>\$ 485,245</u>	<u>\$ 149,503</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (14,044)	\$ 74,258	\$ 60,214	\$ 23,221
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	54,628	33,859	88,487	21,271
Changes in assets and liabilities				
Receivables (net)	(49)	(515)	(564)	-
Due from other units of government	(92,345)	(56,464)	(148,809)	-
Inventories	-	(5,296)	(5,296)	-
Accounts payable	12,895	7,899	20,794	(1,626)
Accrued and other liabilities	3,845	(1,718)	2,127	-
Net cash provided (used) by operating activities	<u>\$ (35,070)</u>	<u>\$ 52,023</u>	<u>\$ 16,953</u>	<u>\$ 42,866</u>

Village of Decatur
Notes to Financial Statements
February 28, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

Village of Decatur is governed by an elected seven-member Council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the Village's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The members of the Governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the Village of Decatur annual financial statements.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate

component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Village of Decatur
Notes to Financial Statements
February 28, 2006

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the

Village. Funding is primarily through state shared gas and weight taxes.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and

Village of Decatur
Notes to Financial Statements
February 28, 2006

other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$31,357, 486, on which ad valorem taxes consisted of 16.4129 mills for operating purposes. This resulted in \$514,667 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted assets – Certain revenue bonds of the Water Fund require amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements.

Village of Decatur
Notes to Financial Statements
February 28, 2006

Capital assets are defined by the government as assets with an initial individual cost of more than \$500 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	20 to 60 years
Building improvements	10 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	4 to 10 years
Office and computer equipment	4 to 15 years
Infrastructure	50 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and personal benefits. All vacation pay and personal time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or

proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

Village of Decatur
Notes to Financial Statements
February 28, 2006

Prior to yearend, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

During the year ended February 28, 2006, the village incurred the following expenditure, which were in excess of the amounts appropriated. All excess amounts were funded through available carryover funds.

<u>Fund</u>	<u>Function</u>	<u>Amended Budget</u>	<u>Actual</u>
General	Public Safety	\$ 277,027	\$ 286,903
Major Street	Capital Outlay	\$ 691,723	\$ 760,125

NOTE 3 - DEPOSITS AND INVESTMENTS

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Cash Equivalents</u>	<u>Restricted Cash and Cash Equivalents</u>
Governmental activities	\$ 497,510	\$ -
Business-type activities	434,196	51,049
Total primary government	931,706	51,049
Component unit	13,802	-
Total	<u>\$ 945,508</u>	<u>\$ 51,049</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 982,405	\$ 13,802
Petty cash and cash on hand	350	-
	<u>\$ 982,755</u>	<u>\$ 13,802</u>

Interest rate risk – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 60 months.

Credit risk – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or

Village of Decatur
Notes to Financial Statements
February 28, 2006

instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 920,157 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Business loans	\$ 83,886	General
Home rehabilitation loans	<u>53,297</u>	Home Rehabilitation
	<u>\$ 137,183</u>	

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Primary government		
State shared revenue	\$ 26,773	\$ -
Property taxes	36,902	
Tower lease	<u>-</u>	<u>43,940</u>
	<u>\$ 63,675</u>	<u>\$ 43,940</u>
Component unit		
Property taxes	\$ -	\$ 168
	<u>\$ -</u>	<u>\$ 168</u>

Village of Decatur
Notes to Financial Statements
February 28, 2006

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	10,000	-	-	10,000
Capital assets being depreciated				
Land improvements	160,075	-	-	160,075
Infrastructure	11,520	687,680	-	699,200
Buildings, additions and improvements	121,500	4,123	-	125,623
Machinery and equipment	145,125	-	-	145,125
Vehicles	271,013	15,552	3,395	283,170
Total capital assets being depreciated	709,233	707,355	3,395	1,413,193
Less accumulated depreciation for				
Land improvements	104,873	11,068	-	115,941
Infrastructure	384	23,307	-	23,691
Buildings, additions and improvements	70,167	3,667	-	73,834
Machinery and equipment	104,425	8,832	3,395	109,862
Vehicles	96,168	18,204	-	114,372
Total accumulated depreciation	376,017	65,078	3,395	437,700
Net capital assets being depreciated	333,216	642,277	-	975,493
Governmental activities capital assets, net	\$ 343,216	\$ 642,277	\$ -	\$ 985,493

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 99,935	\$ -	\$ -	\$ 99,935
Construction in progress	130,239	-	130,239	-
Total capital assets not being depreciated	230,174	-	130,239	99,935
Capital assets being depreciated				
Land improvements	-	-	-	-
Infrastructure	-	-	-	-
Buildings, additions and improvements	471,570	43,574	-	515,144
Machinery and equipment	98,492	8,338	-	106,830
Vehicles	-	-	-	-
Water system	809,006	247,174	-	1,056,180
Sewer system	1,472,343	929,922	-	2,402,265
Total capital assets being depreciated	2,851,411	1,229,008	-	4,080,419
Less accumulated depreciation for				
Land improvements	-	-	-	-
Infrastructure	-	-	-	-
Buildings, additions and improvements	268,104	10,715	-	278,819
Machinery and equipment	73,822	8,458	-	82,280
Vehicles	-	-	-	-
Water system	349,126	21,269	-	370,395
Sewer system	946,644	48,045	-	994,689
Total accumulated depreciation	1,637,696	88,487	-	1,726,183
Net capital assets being depreciated	1,213,715	1,140,521	-	2,354,236
Business-type capital assets, net	\$ 1,443,889	\$ 1,140,521	\$ 130,239	\$ 2,454,171

Depreciation expense was charged to programs of the primary government as follows:

Village of Decatur
Notes to Financial Statements
February 28, 2006

Governmental activities

General government	\$ 6,272
Public safety	2,035
Public works	23,307
Health and welfare	-
Community and economic development	-
Recreation and culture	12,193
Other functions	-
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>21,271</u>
Total governmental activities	<u>65,078</u>

Business-type activities

Sewer	54,628
Water	<u>33,859</u>
Total business-type activities	<u>88,487</u>
Total primary government	<u>\$ 153,565</u>

NOTE 6 - INTERFUND RECEIVABLES, PAYABLE, TRANSFERS

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
General	Streets	<u>\$ 1,248</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Streets	Local Street	\$ 10,000
Major Street	Local Street	20,000
General	Local Street	3,900
General	Major Street	59,000
General	Internal Service	9,000
General	Water	20,000
Streets	General	63,500
General	Fire Insurance	332
Sewer	Water	<u>8,500</u>
		<u>\$ 194,232</u>

Transfers from the general fund are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

The transfer from the sewer fund was to reimburse the water fund for sewer fund salaries expenditures paid out of the water fund.

Transfers to the local street fund are used to support the operating costs of the fund.

The transfer from the streets fund to the general fund was used to transfer general fund property taxes that had originally been recorded in the streets fund.

Village of Decatur
Notes to Financial Statements
February 28, 2006

NOTE 7 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities									
Compensated absences					\$ -	\$ 14,806	\$ -	\$ 14,806	\$ -
Business-type activities									
Bonds and notes payable									
Water Supply System Revenue Bonds									
Bonds, Series 1979	\$ 560,000	1/1/2018	5%	20,000-25,000	\$ 300,000	\$ -	\$ 20,000	\$ 280,000	\$ 20,000

The Village paid \$14,833 in interest expense for the year ending February 28, 2006.

Village of Decatur
Notes to Financial Statements
February 28, 2006

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Business-type Activities	
	Principal	Interest
2007	\$ 20,000	\$ 14,000
2008	20,000	13,000
2009	20,000	12,000
2010	20,000	11,000
2011	25,000	10,000
2012-2016	125,000	31,250
2017-2021	<u>50,000</u>	<u>3,750</u>
	<u>\$ 280,000</u>	<u>\$ 95,000</u>

NOTE 8 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims up to \$1,000,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 9 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined contribution pension plan

The Village provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plan permits employees to defer a portion of

their current compensation until the employee terminates employment. The Village makes a matching contribution (not to exceed 3% of covered payroll) for all personnel who contribute to the plan. Total contributions for each employee (and interest allocated to the employee's account) are immediately 100% vested. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

The Village and covered employees made contributions of \$9,017 and \$16,076 respectively, for the fiscal year 2005-2006 for a total of \$25,093.

NOTE 10 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

NOTE 11 - CONSTRUCTION CODE ACT

A summary of construction code enforcement transactions for the year ended February 28, 2006 is as follows:

Carryover deficit from prior year	\$ (1,028)
Permit revenue	12,375
Permit expenditures	<u>(11,579)</u>
Deficiency of revenue over expenditures	\$ <u>(232)</u>

Village of Decatur
Notes to Financial Statements
February 28, 2006

NOTE 12 - PRIOR PERIOD ADJUSTMENTS

Home
Rehabilitation
Fund

Prior year notes receivable ending
balances were incorrect

\$ 26,207

General Fund

Fire insurance proceeds liabilities
were recorded as revenues

\$ (9,754)

Village of Decatur
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2006

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 357,100	\$ 357,100	\$ 334,802	\$ (22,298)
Penalties and interest	300	300	2,809	2,509
Administration fee	4,250	4,250	4,093	(157)
Licenses and permits	15,420	14,420	14,930	510
State revenue sharing	200,000	200,000	207,926	7,926
Charges for services	12,620	12,620	7,486	(5,134)
Fines and forfeitures	3,500	3,500	5,332	1,832
Interest income	800	5,500	4,874	(626)
Rental income	4,800	4,800	1,255	(3,545)
Other revenue	16,200	17,250	14,972	(2,278)
Transfer in	139,000	139,000	105,400	(33,600)
Total revenues	753,990	758,740	703,879	(54,861)

Village of Decatur
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2006

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Expenditures				
General government				
Village board	\$ 48,910	\$ 48,910	\$ 47,353	\$ (1,557)
Manager	59,383	58,883	47,176	(11,707)
Clerk	63,538	63,038	67,453	4,415
Treasurer	12,345	12,345	11,750	(595)
Buildings and grounds	15,920	15,920	14,208	(1,712)
Total general government	200,096	199,096	187,940	(11,156)
Public safety				
Police	266,927	266,927	275,324	8,397
Building inspection department	10,100	10,100	11,579	1,479
Total public safety	277,027	277,027	286,903	9,876
Public works				
Department of public works	147,030	147,030	124,260	(22,770)
Sidewalks	12,000	12,000	9,920	(2,080)
Street lighting	22,000	22,000	16,186	(5,814)
Total public works	181,030	181,030	150,366	(30,664)

Village of Decatur
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended February 28, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Community and economic development				
Planning	\$ -	\$ 275	\$ 226	\$ (49)
Recreation and culture				
Parks and recreation	46,485	46,485	36,516	(9,969)
Capital outlay	2,000	3,000	4,123	1,123
Transfers out	-	-	50,332	50,332
Total expenditures	706,638	706,913	716,406	9,493
Excess (deficiency) of revenues over expenditures	47,352	51,827	(12,527)	(64,354)
Fund balance - beginning of year	285,067	285,067	285,067	-
Prior period adjustment	-	-	(9,754)	(9,754)
Fund balance - beginning of year (restated)	285,067	285,067	275,313	(9,754)
Fund balance - end of year	\$ 332,419	\$ 336,894	\$ 262,786	\$ (74,108)

See Accompanying Notes to Financial Statements

Village of Decatur
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended February 28, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Other state grants	\$ 650,000	\$ 650,000	\$ 644,103	\$ (5,897)
Interest income	200	200	1,486	1,286
Transfers in	50,000	50,000	50,000	-
Total revenues	700,200	700,200	695,589	(4,611)
Expenditures				
Current				
Public works	662,723	662,723	43,445	(619,278)
Capital outlay	-	-	687,680	687,680
Transfers out	29,000	29,000	29,000	-
Total expenditures	691,723	691,723	760,125	68,402
Excess of revenues (deficiency) over expenditures	8,477	8,477	(64,536)	(73,013)
Fund balance - beginning of year	78,560	78,560	78,560	-
Fund balance - end of year	<u>\$ 87,037</u>	<u>\$ 87,037</u>	<u>\$ 14,024</u>	<u>\$ (73,013)</u>

Village of Decatur
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended February 28, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 21,000	\$ 21,000	\$ 20,980	\$ (20)
Other state grants	46,000	46,000	44,063	(1,937)
Interest income	200	200	264	64
Transfers in	30,000	30,000	30,000	-
Total revenues	97,200	97,200	95,307	(1,893)
Expenditures				
Current				
Public works	85,792	85,792	79,214	(6,578)
Transfers out	3,900	3,900	3,900	-
Total expenditures	89,692	89,692	83,114	(6,578)
Excess of revenues (deficiency) over expenditures	7,508	7,508	12,193	4,685
Fund balance - beginning of year	67,101	67,101	67,101	-
Fund balance - end of year	\$ 74,609	\$ 74,609	\$ 79,294	\$ 4,685

Village of Decatur
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 28, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Raider Romp	Home Rehabil- itation	Fire Insurance Proceeds	Streets	
Assets					
Cash and cash equivalents	\$ 4,201	\$ 57,801	\$ 3,235	\$ 1,953	\$ 67,190
Receivables					
Taxes	-	-	-	7,703	7,703
Customers	-	57,327	-	-	57,327
Due from other units of government	-	-	-	1,248	1,248
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,248</u>	<u>1,248</u>
 Total assets	<u>\$ 4,201</u>	<u>\$ 115,128</u>	<u>\$ 3,235</u>	<u>\$ 10,904</u>	<u>\$ 133,468</u>
 Liabilities					
Accounts payable	-	14	-	-	\$ 14
Accrued and other liabilities	-	-	2,875	-	2,875
Due to other funds	-	-	-	1,248	1,248
Deferred revenue	-	-	-	7,703	7,703
	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,703</u>	<u>7,703</u>
 Total liabilities	<u>-</u>	<u>14</u>	<u>2,875</u>	<u>8,951</u>	<u>11,840</u>
 Fund Balances					
Undesignated	<u>4,201</u>	<u>115,114</u>	<u>360</u>	<u>1,953</u>	<u>121,628</u>
 Total liabilities and fund balances	<u>\$ 4,201</u>	<u>\$ 115,128</u>	<u>\$ 3,235</u>	<u>\$ 10,904</u>	<u>\$ 133,468</u>

Village of Decatur
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended February 28, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Raider Romp	Home Rehabil- itation	Fire Insurance Proceeds	Streets	
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 75,453	\$ 75,453
Interest income	13	1,708	28	-	1,749
Other revenue	11	(163)	-	-	(152)
Total revenues	<u>24</u>	<u>1,545</u>	<u>28</u>	<u>75,453</u>	<u>77,050</u>
Expenditures					
Current					
Public works	-	247	-	-	247
Excess (deficiency) of revenues over expenditures	<u>24</u>	<u>1,298</u>	<u>28</u>	<u>75,453</u>	<u>76,803</u>
Other financing sources (uses)					
Transfers in	-	-	332	-	332
Transfers out	-	-	-	(73,500)	(73,500)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>332</u>	<u>(73,500)</u>	<u>(73,168)</u>
Net change in fund balance	<u>24</u>	<u>1,298</u>	<u>360</u>	<u>1,953</u>	<u>3,635</u>
Fund balance - beginning of year	4,177	87,609	-	-	91,786
Prior period adjustment	-	26,207	-	-	26,207
Fund balance - beginning of year (restated)	<u>4,177</u>	<u>113,816</u>	<u>-</u>	<u>-</u>	<u>117,993</u>
Fund balance - end of year	<u>\$ 4,201</u>	<u>\$ 115,114</u>	<u>\$ 360</u>	<u>\$ 1,953</u>	<u>\$ 121,628</u>

See Accompanying Notes to Financial Statements

Village of Decatur
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended February 28, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Taxes	\$ 7,000	\$ 7,000	\$ 6,197	\$ (803)
Interest income	20	20	45	25
Total revenues	7,020	7,020	6,242	(778)
Expenditures				
Current				
Community and economic development	-	-	1,213	1,213
Excess (deficiency) of revenues over expenditures	7,020	7,020	5,029	(1,991)
Fund balance - beginning of year	9,550	9,550	9,550	-
Fund balance - end of year	\$ 16,570	\$ 16,570	\$ 14,579	\$ (1,991)

Village of Decatur
Other Supplemental Information
Schedule of Indebtedness
February 28, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Business-type Activities	5.000%	2007	\$ 20,000	\$ 7,000	\$ 7,000	\$ 34,000
1979 Water Supply System Revenue Bonds	5.000%	2008	20,000	6,500	6,500	33,000
Amount of issue - \$ 560,000	5.000%	2009	20,000	6,000	6,000	32,000
	5.000%	2010	20,000	5,500	5,500	31,000
	5.000%	2011	25,000	5,000	5,000	35,000
	5.000%	2012	25,000	4,375	4,375	33,750
	5.000%	2013	25,000	3,750	3,750	32,500
	5.000%	2014	25,000	3,125	3,125	31,250
	5.000%	2015	25,000	2,500	2,500	30,000
	5.000%	2016	25,000	1,875	1,875	28,750
	5.000%	2017	25,000	1,250	1,250	27,500
	5.000%	2018	25,000	625	625	26,250
			<u>\$280,000</u>	<u>\$ 47,500</u>	<u>\$ 47,500</u>	<u>\$375,000</u>

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Members of the Village Council
Village of Decatur
Decatur, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Village of Decatur as of and for the year ended February 28, 2006, which collectively comprise Village of Decatur's basic financial statements and have issued our report thereon dated July 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Decatur's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Decatur's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we have reported to the management of the Village of Decatur in a separate letter dated July 12, 2006.

This report is intended for the information of the Village of Decatur, management and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

July 12, 2006
Kalamazoo, Michigan

Report on Compliance Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Members of the Village Council
Village of Decatur
Decatur, Michigan

Compliance

We have audited the compliance of The Village of Decatur, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended February 28, 2006. The Village of Decatur's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of The Village of Decatur's management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Village of Decatur's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis of our opinion. Our audit does not provide a legal determination on The Village of Decatur's compliance with those requirements.

In our opinion, The Village of Decatur complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended February 28, 2006.

Internal Control Over Compliance

The management of The Village of Decatur is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered The Village of Decatur's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of The Village of Decatur, as of and for the year ended February 28, 2006, and have issued our report thereon dated July 12, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise The Village of Decatur's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information of the Village Council, management, federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Kalamazoo, Michigan
July 12, 2006

Village of Decatur
Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2006

<u>Federal Grantor / Pass-Through</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>Accrued (Deferred) Revenue 3/01/05</u>	<u>Current Year Expenditures</u>	<u>Current Year Receipts</u>	<u>Accrued (Deferred) Revenue 2/28/06</u>
Department of Commerce Grant for Public Works and Economic Development	11.300		<u>\$ 980,000</u>	<u>\$ -</u>	<u>\$ 818,444</u>	<u>\$ 757,503</u>	<u>\$ 60,941</u>
Department of Housing and Urban Development Passed through Michigan Economic Development Corporation							
Community Development Block Grant	14.228	MSC 201104	<u>350,000</u>	<u>-</u>	<u>350,000</u>	<u>262,132</u>	<u>87,868</u>
Total Department of Housing and Urban Development			<u>350,000</u>	<u>-</u>	<u>350,000</u>	<u>262,132</u>	<u>87,868</u>
Total Federal Financial Assistance			<u><u>\$ 1,330,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,168,444</u></u>	<u><u>\$ 1,019,635</u></u>	<u><u>\$ 148,809</u></u>

Village of Decatur
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended February 28, 2006

1. The Schedule of Expenditures of Federal Awards was prepared using the accrual basis of accounting.
2. Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports that have been submitted as of February 28, 2006.

The Village of Decatur
Schedule of Findings and Questioned Costs
For the Year Ended February 28, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not
considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not
considered to be material weaknesses ☐ Yes ☒ None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be
reported in accordance with section 510(a)
of Circular A-133?

☐ Yes ☒ No

The Village of Decatur
Schedule of Findings and Questioned Costs
For the Year Ended February 28, 2006

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
11.300	Grant for Public Works and Economic Development
14.228	Community Development Block Grant

Dollar threshold used to distinguish between
type A and type B programs:

\$ 300,000

Auditee qualified as a low-risk auditee?

☐ Yes ☒ No

Section II – Financial Statement Findings:

There were no findings noted.

Section III – Federal Award Findings and Questioned Costs:

There were no findings or questioned costs noted.

Village of Decatur
Auditors' Comments on Audit Resolution Matters Related to Federal Awards
February 28, 2006

There were no findings or questioned costs for 2005.

July 12, 2006

Members of the Village Council
Village of Decatur, Michigan

Council Members:

In planning and performing our audit of the financial statements of the Village of Decatur for the year ended February 28, 2006, we considered the Village's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, to perform an additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Current Year Recommendations:

Approval for Closing of Accounts

During the audit, it was discovered that a bank account was closed during the year without Board approval being noted in the board minutes.

Suggestion: We suggest that the Village ensure the Board approves and documents all opening and closing of accounts.

Formal Written Conflict of Interest Policy

During the audit, it came to our attention that the Village does not have a formal written conflict of interest policy.

Suggestion: We recommend that the Village adopt a written conflict of interest policy. We can provide the Village with an example of such a policy.

Cash Receipts Booklet

During the audit, it was discovered that a cash receipts booklet is not being used to keep track of all receipts.

Suggestion: We recommend the Village begin using a cash receipts booklet to record all receipts received by the Village. This booklet should have duplicate forms so that customers of the Village may have a copy of the receipt as well as the Village. The receipt booklet should be sequentially numbered so that all cash receipts can be accounted for.

Pay Rates in Employee Files

During the audit, it was discovered that employee personnel files do not include information regarding that employee's current rate of pay.

Suggestion: We suggest the Village keep a record of each employee's current rate of pay in each employee's personnel file. This information should be updated each time an employee's rate of pay changes.

Journal Entry Numbering

During the audit, it was discovered that there was no system being consistently followed in regards to journal entry numbering.

Suggestion: We suggest that the Village keep a log to track all journal entries. Journal entries should be numbered sequentially so that journal entries can easily be accounted for.

Our firm appreciates the opportunity to serve the Village of Decatur, Michigan and would like to thank the administration and staff for their cooperation and assistance.

Should you have any questions, please contact our office.

Sincerely,



Carol A. Light, CPA
Yeo & Yeo, P.C.
CPA's and Business Consultants